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Credit management at the centre of the storm.

Adam Dupré
Managing Director
Ocean Intelligence Pte Ltd

www.oceanintelligence.com

PETROMEDIA



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Counterparty “credit keeps me awake at night”

Philip Choi – President, Shell International Eastern Trading Co.
9th February 2009



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No money, no honey

- High liquidity in the market
 - Greater trust/relaxation about payment
 - More cash available
- Low liquidity
 - No trust, market constriction
 - Less cash and therefore credit available
 - Higher counterparty risk all round



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Caveat Vendor/Caveat Emptor

- Seller beware / buyer beware – both apply today to create a unique credit dynamic.
- Suppliers need to be precise about who they sell to.
- Buyers need to recognise they have to help suppliers by demonstrating their capacity to pay.



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“May you live in exciting times”

- Bunkers basically a physical/practical market, for all the growth of risk management around it.
- The credit relationship has to sides and two sets of responsibility. Discovery and disclosure.



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Not just a rating

- No place for the inexperienced in bunker credit management.

Impossible to make a credit decision on just a rating, with no understanding of what is going on.

- Deep understanding of the facts and the dynamics.



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The ideal bunker credit manager

- Know your market
- Know your own culture and people
- Know your customers



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Tools of the Trade

- Pricing and market information
- Credit insurance
- Credit reports



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Mixing the ingredients

- Cash in advance may be safe, but unless judiciously used can lose perfectly good business.
- Credit insurance becoming more pricey, especially for new policy holders.
- Acquire intelligence supports seasoned and reasoned judgements.



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And how about the buyer?

- Consistency
- Appropriate transparency
- Credit agencies as bulletin boards for the industry.



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Is it dog eat dog out there?

- Eight shipping company collapses in late 2008; 23 stressed companies in early 2009. Now the list includes some suppliers.
- Who will pull the trigger when the charged chamber of the revolver clicks round?
- There's a need to maintain rational assessment and sound judgement in credit decisions.



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Finally ...

- With possibly more smaller players struggling, increased supplier consolidation is likely.
- Control of prices by a few large players might not be best environment for buyers.
- Careful and precise credit decisions and transparency on the buyer side would lead to the genuinely good on both side surviving and the weaker elements being removed.